

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Washtenaw County Road Commission
(a component unit of Washtenaw County)

Financial Report
with Supplementary Information
December 31, 2006

Washtenaw County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Washtenaw County Road Commission

We have audited the accompanying financial statements of the governmental activities and each major fund of the Washtenaw County Road Commission (a component unit of Washtenaw County) as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Washtenaw County Road Commission at December 31, 2006 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the statements that collectively comprise the Road Commission's basic financial statements. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Washtenaw County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

February 9, 2007

Washtenaw County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Washtenaw County Road Commission (the "Road Commission") provides an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2006. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns tell us how the Michigan Transportation Fund revenues were spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

Supplementary information is also provided for additional information purposes.

Financial Analysis

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$177,907,603 at the end of the fiscal year.

When comparing this fiscal year to the previous year, net assets have increased by \$17,287,463 (see page 7). This is primarily attributed to the addition of infrastructure assets.

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below.

Condensed Statement of Net Assets

	Governmental Activities	
	December 31	
	2006	2005
Assets		
Current and other assets	\$ 9,166,199	\$ 9,754,372
Capital assets	178,613,002	161,146,209
Total assets	187,779,201	170,900,581
Liabilities		
Long-term liabilities outstanding	4,945,309	5,661,193
Other liabilities	4,926,289	4,619,248
Total liabilities	9,871,598	10,280,441
Net Assets		
Invested in capital assets - Net of related debt	174,480,968	156,340,500
Unrestricted	3,426,635	4,279,640
Total net assets	<u>\$ 177,907,603</u>	<u>\$ 160,620,140</u>

Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2006	2005
Revenue	\$ 43,458,347	\$ 29,833,136
Expenses	26,170,884	25,852,865
Change in Net Assets	<u>\$ 17,287,463</u>	<u>\$ 3,980,271</u>

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

The Road Commission implemented a department-based budget beginning in fiscal year 2006. This provided an opportunity for each department to participate in developing their budget and monitoring their expenditures. The new budget process will continually be refined and updated as warranted.

The Road Commission amended its 2006 budget on three occasions during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final budget for revenue was \$2.3 million lower than the original budget primarily due to decreased federal participation in construction projects. The actual 2006 revenues were approximately \$11.7 million higher than the amended budget due to revenues recognized for contributions in-kind that were not anticipated in the budget. The actual 2006 expenditures were approximately \$12 million higher than the amended budget due to expenses recognized for contributions in-kind that were not anticipated in the budget.

The Road Commission established a postemployment benefit trust in 2006 to address GASB 43 and 45 other postemployment benefits reporting conditions (OPEB). The annual required contribution (ARC) was met for the year as determined by the actuary, Gabriel Roeder Smith (GRS). The Road Commission has committed to fund the annual ARC during fiscal year 2007 as well.

Capital Assets

The Road Commission had \$178,613,002 in capital assets at the end of the fiscal year. The reason for the approximately \$17.5 million increase from the previous year is twofold: (1) purchases of new equipment, and (2) an increase in infrastructure costs. Infrastructure costs continue to be the largest asset class.

Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2006	2005
Land	\$ 18,413,306	\$ 17,388,549
Buildings and storage bins	9,483,298	9,564,640
Road equipment	2,148,176	2,512,183
Other equipment	517,487	590,004
Infrastructure	148,050,735	131,090,833
Totals	<u>\$ 178,613,002</u>	<u>\$ 161,146,209</u>

Washtenaw County Road Commission

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

The general economic activity diminished during 2006, which resulted in Michigan Transportation Fund (MTF) revenues decreasing compared to 2005 receipts. The Road Commission has received contradictory reports regarding the MTF funding available in 2007 and has chosen to use a flat projection. The actual 2007 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

Overall, the 2007 budget includes higher expenditures than 2006 primarily due to an increase in the expected level of reimbursable federal aid projects. Revenues are expected to be higher in 2007 primarily due to the increase in local government contributory projects as well as more federal aid projects. These dedicated revenues will lead to more capital improvements; however, our departments were required to reduce their general operating costs by 3 percent in order to maintain a balanced budget.

The Road Commission will continue to address OPEB contributions in 2007. Benefit concessions were implemented in order to address the escalating costs of health care. The Road Commission also completed the required documents to receive federal reimbursement for Medicare Part D applicable costs.

The Road Commission continues to evaluate processes and procedures in order to cost effectively provide the citizens of Washtenaw County with safe and convenient driving conditions.

Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Washtenaw County Road Commission, 555 N. Zeeb Road, Ann Arbor, MI 48103.

Washtenaw County Road Commission

Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2006

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Net Assets
Assets					
Cash and investments (Note 3)	\$ 3,242,173	\$ -	\$ 3,242,173	\$ -	\$ 3,242,173
Accounts receivable (Note 1)	4,098,826	-	4,098,826	-	4,098,826
Inventory	821,122	-	821,122	-	821,122
Restricted assets (Note 4)	712,966	-	712,966	-	712,966
Prepaid expenses and other	291,112	-	291,112	-	291,112
Capital assets - Net (Note 5):					
Assets being depreciated	-	-	-	160,199,696	160,199,696
Assets not being depreciated	-	-	-	18,413,306	18,413,306
Total assets	\$ 9,166,199	\$ -	\$ 9,166,199	178,613,002	187,779,201
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 637,307	\$ -	\$ 637,307	\$ -	\$ 637,307
Advances (Note 1)	3,297,266	-	3,297,266	-	3,297,266
Accrued liabilities	150,713	-	150,713	66,003	216,716
Deferred revenue (Note 1)	232,686	-	232,686	(232,686)	-
Bonds and contracts payable, due within one year (Note 7)	-	-	-	775,000	775,000
Bonds and contracts payable, due in more than one year (Note 7)	-	-	-	4,070,000	4,070,000
Other long-term liabilities (Note 6)	-	-	-	875,309	875,309
Total liabilities	4,317,972	-	4,317,972	5,553,626	9,871,598
Fund Balances					
Reserved:					
Inventory	821,122	-	821,122	(821,122)	-
Prepaid expenses	203,255	-	203,255	(203,255)	-
Unspent bond proceeds	712,966	-	712,966	(712,966)	-
Unreserved - Designated for:					
Employee retirement benefits	1,500,000	-	1,500,000	(1,500,000)	-
Capital improvements	116,638	-	116,638	(116,638)	-
Capital outlay	362,000	-	362,000	(362,000)	-
Insurance retention	1,051,246	-	1,051,246	(1,051,246)	-
Construction	81,000	-	81,000	(81,000)	-
Total fund balances	4,848,227	-	4,848,227	(4,848,227)	-
Total liabilities and fund balances	\$ 9,166,199	\$ -	\$ 9,166,199		
Net Assets					
Investments in capital assets - Net of related debt				174,480,968	174,480,968
Unrestricted				3,426,635	3,426,635
Total net assets				\$ 177,907,603	\$ 177,907,603

Washtenaw County Road Commission

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended December 31, 2006

	Major Fund - Road	Nonmajor Fund - Subdivision Improvements	Total Governmental Funds	Adjustments (Note 2)	Statement of Activities
Revenue					
State aid - Michigan Transportation Fund	\$ 17,321,003	\$ -	\$ 17,321,003	\$ -	\$ 17,321,003
State trunkline maintenance	1,922,530	-	1,922,530	-	1,922,530
Federal and state sources	3,978,392	-	3,978,392	-	3,978,392
Revenue from local governments	4,940,566	-	4,940,566	32,708	4,973,274
Collections of special assessments	-	-	-	2,094	2,094
Loss on sale of asset	-	-	-	(36)	(36)
Contributions in-kind	12,395,328	-	12,395,328	-	12,395,328
Interest, fees, and other revenue	2,665,625	159	2,665,784	199,978	2,865,762
Total revenue	43,223,444	159	43,223,603	234,744	43,458,347
Expenditures/Expenses					
Administration	1,290,146	-	1,290,146	(70,173)	1,219,973
Operations	8,686,888	-	8,686,888	(3,609,324)	5,077,564
Engineering	3,543,588	-	3,543,588	(78,000)	3,465,588
Nondepartmental	5,746,245	-	5,746,245	-	5,746,245
Project expenditures - Road improvement program and construction	11,724,833	-	11,724,833	(11,724,833)	-
Road and other construction in-kind	12,395,328	-	12,395,328	(12,395,328)	-
Depreciation expense	-	-	-	10,469,945	10,469,945
Debt service:					
Principal retirement	755,000	-	755,000	(755,000)	-
Interest and other charges	201,425	-	201,425	(9,856)	191,569
Total expenditures/expenses	44,343,453	-	44,343,453	(18,172,569)	26,170,884
Excess of Revenue Over (Under) Expenditures/ Expenses	(1,120,009)	159	(1,119,850)	18,407,313	17,287,463
Other Financing Sources (Uses)					
Transfers in	16,224	-	16,224	-	16,224
Transfers out	-	(16,224)	(16,224)	-	(16,224)
Total financing sources (uses)	16,224	(16,224)	-	-	-
Change in Fund Balances/Net Assets	(1,103,785)	(16,065)	(1,119,850)	18,407,313	17,287,463
Fund Balances/Net Assets - January 1, 2006	5,952,012	16,065	5,968,077	154,652,063	160,620,140
Fund Balances/Net Assets - December 31, 2006	<u>\$ 4,848,227</u>	<u>\$ -</u>	<u>\$ 4,848,227</u>	<u>\$ 173,059,376</u>	<u>\$ 177,907,603</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies

The Road Commission of the County of Washtenaw, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Washtenaw, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Washtenaw, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only major governmental fund. The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

The Subdivision Improvements Fund (a nonmajor governmental fund) is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property. The Subdivision Improvements Fund was closed prior to December 31, 2006.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are primarily amounts due from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies (Continued)

Advances and Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report deferred revenue or advances in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of advances and deferred revenue are as follows:

	Unavailable	Unearned
Deferred revenue	\$ 232,686	\$ -
Advances	-	3,297,266

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years
Roads	5 to 30 years
Other infrastructure	12 to 50 years

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to financial statements.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 4,848,227
Capital assets used in governmental activities are not financial resources and are not reported in the funds	178,613,002
Local and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	232,686
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,845,000)
Compensated absences and provision for workers' compensation uninsured losses are not reported in the funds	(875,309)
Accrued interest payable is not reported in the funds	<u>(66,003)</u>
Government-wide net assets	<u>\$ 177,907,603</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ (1,119,850)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	17,466,829
In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the asset sold	(36)
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	2,094
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	755,000
Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(59,116)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	9,856
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>232,686</u>
Change in net assets of governmental activities	<u>\$ 17,287,463</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 3 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk as follows:

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$4,642,790 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The book balance for these deposits has been reported on the governmental funds balance sheet/statement of net assets as cash and investments of \$3,242,173 and restricted assets of \$712,966.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Restricted Assets

Restricted assets in the Road Fund at December 31, 2006 consist of cash and investments in the amount of \$712,966. These assets, representing unspent bond proceeds, are restricted for construction.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 17,388,549	\$ 1,024,757	\$ -	\$ 18,413,306
Capital assets being depreciated:				
Buildings and storage bins	12,782,074	232,769	-	13,014,843
Road equipment	12,108,798	543,385	65,413	12,586,770
Other equipment	1,857,345	79,501	-	1,936,846
Brine wells and gravel pits	136,386	-	-	136,386
Infrastructure	<u>218,472,929</u>	<u>26,056,362</u>	<u>-</u>	<u>244,529,291</u>
Subtotal	245,357,532	26,912,017	65,413	272,204,136
Less accumulated depreciation for:				
Buildings and storage bins	(3,217,434)	(314,111)	-	(3,531,545)
Road equipment	(9,596,615)	(907,356)	(65,377)	(10,438,594)
Other equipment	(1,267,341)	(152,018)	-	(1,419,359)
Brine wells and gravel pits	(136,386)	-	-	(136,386)
Infrastructure	<u>(87,382,096)</u>	<u>(9,096,460)</u>	<u>-</u>	<u>(96,478,556)</u>
Subtotal	<u>(101,599,872)</u>	<u>(10,469,945)</u>	<u>(65,377)</u>	<u>(112,004,440)</u>
Net capital assets being depreciated	<u>143,757,660</u>	<u>16,442,072</u>	<u>36</u>	<u>160,199,696</u>
Net capital assets	<u>\$ 161,146,209</u>	<u>\$ 17,466,829</u>	<u>\$ 36</u>	<u>\$ 178,613,002</u>

Note 6 - Risk Management and Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 6 - Risk Management and Other Long-term Liabilities (Continued)

The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, union employees earn sick and vacation time, while nonunion employees earn annual leave based on time of service with the Road Commission. The estimated compensated absence liability as of December 31, 2006 is \$875,309, an increase of \$59,116 from December 31, 2005.

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2006:

	Interest Rate	Maturing Through	Principal Outstanding
2000 Michigan Transportation Fund Notes, Series 2000	5.05%-5.2%	2009	\$ 285,000
2002 Michigan Transportation Fund Notes, Series 2002	4.125%-4.5%	2012	1,800,000
2004 Washtenaw County Refunding bonds	2.25%-3.5%	2013	<u>2,760,000</u>
Total bonded and other contractual indebtedness			<u>\$ 4,845,000</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

The Washtenaw County Building Authority Refunding debt represents bonds that were sold on behalf of the Road Commission for the construction of Yard 2.

The 2000 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes was used to fund improvements on county highways in Scio Township.

The 2002 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes was used to fund improvements on subdivisions in Ypsilanti Township.

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2000 Michigan Transportation Fund Notes, Series 2000	\$ 380,000	\$ -	\$ 95,000	\$ 285,000	\$ 95,000
2002 Michigan Transportation Fund Notes, Series 2002	2,100,000	-	300,000	1,800,000	300,000
2004 Washtenaw County Refunding bonds	<u>3,120,000</u>	<u>-</u>	<u>360,000</u>	<u>2,760,000</u>	<u>380,000</u>
Total bonded and other contractual indebtedness	<u>\$ 5,600,000</u>	<u>\$ -</u>	<u>\$ 755,000</u>	<u>\$ 4,845,000</u>	<u>\$ 775,000</u>

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2006, except liabilities for compensated absences, are as follows:

Fiscal Years Ending December 31	Principal	Interest	Total
2007	\$ 775,000	\$ 174,878	\$ 949,878
2008	770,000	148,733	918,733
2009	780,000	121,715	901,715
2010	675,000	93,438	768,438
2011	695,000	69,288	764,288
2012-2013	<u>1,150,000</u>	<u>58,650</u>	<u>1,208,650</u>
Total	<u>\$ 4,845,000</u>	<u>\$ 666,702</u>	<u>\$ 5,511,702</u>

Interest

Interest expense paid by the Road Commission for the year ended December 31, 2006 approximated \$201,000.

Note 8 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- Budgets must be adopted for the Special Revenue Funds. The Road Fund and the Subdivision Improvements Fund are Special Revenue Funds.
- Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 8 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on a departmental basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the required supplementary information. A comparison of actual results of operations to the Subdivision Improvement Fund budget as adopted by the Board of Road Commissioners is available at the Road Commission offices for inspection.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within a departmental category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Road Commission incurred expenditures that were in excess of amounts budgeted, as follows:

	Amended Budget	Actual
Administration	\$ 1,153,000	\$ 1,290,146
Nondepartmental	5,457,000	5,746,245
Road and other construction in-kind	-	12,395,328

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 8 - Stewardship, Compliance, and Accountability (Continued)

The unfavorable variance for both administration and nondepartmental is due to a change in budget format from an activity basis to a departmental basis.

The unfavorable variance in road and other construction in-kind was due to the Road Commission receiving donated roads and road improvements that were not anticipated in the budget.

Note 9 - Postemployment Benefits

The Road Commission provides health care benefits, dental benefits, and a death benefit to all full-time employees upon retirement, in accordance with labor contracts. Currently, 155 retirees and/or surviving spouses are eligible for health care and other benefits. The Road Commission includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Road Commission purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and other benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$894,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. The pronouncement is effective for the year ending December 31, 2008.

In 2006, in an effort to proactively address the reporting change discussed above, the Road Commission established a retiree health funding vehicle through the Municipal Employees' Retirement System of Michigan (MERS). During 2006, the Road Commission contributed \$1.7 million to the MERS retiree health funding vehicle.

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 10 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers nearly all employees of the Road Commission. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by resolution of the Road Commission Board.

Annual Pension Cost - For the year ended December 31, 2006, the Road Commission's annual pension cost of \$928,690 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2004	2005	2006
Annual pension cost (APC)	\$ 633,502	\$ 823,729	\$ 928,690
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 23,848,237	\$ 25,129,965	\$ 26,441,658
Actuarial Accrued Liability (AAL) (entry age)	\$ 31,276,579	\$ 33,025,576	\$ 36,027,271
Underfunded AAL (UAAL)	\$ 7,428,342	\$ 7,895,611	\$ 9,585,613
Funded ratio	76%	76%	73%
Covered payroll	\$ 6,790,857	\$ 6,911,250	\$ 7,568,848
UAAL as a percentage of covered payroll	109%	114%	127%

Washtenaw County Road Commission

Notes to Financial Statements December 31, 2006

Note 11 - Construction in Progress

Estimated future contract cost obligations related to completion of Road Fund construction projects in progress at December 31, 2006, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$81,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Required Supplementary Information

Washtenaw County Road Commission

Required Supplementary Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Michigan Transportation Fund	\$ 17,000,000	\$ 17,200,000	17,321,003	\$ 121,003
State trunkline maintenance	2,027,000	2,023,000	1,922,530	(100,470)
Federal and state sources	7,620,000	4,112,000	3,978,392	(133,608)
Revenue from local governments	5,221,000	4,961,000	4,940,566	(20,434)
Contributions in-kind	-	-	12,395,328	12,395,328
Interest, fees, and other revenue	1,984,000	3,210,000	2,665,625	(544,375)
Total revenue	33,852,000	31,506,000	43,223,444	11,717,444
Expenditures				
Administration	1,136,000	1,153,000	1,290,146	(137,146)
Operations	9,909,000	9,026,000	8,686,888	339,112
Engineering	3,758,000	3,569,000	3,543,588	25,412
Nondepartmental	4,398,000	5,457,000	5,746,245	(289,245)
Project expenditures - Road improvement program and construction	14,253,000	12,171,000	11,724,833	446,167
Road and other construction in-kind	-	-	12,395,328	(12,395,328)
Debt service:				
Principal retirement	755,000	755,000	755,000	-
Interest and other charges	200,150	201,425	201,425	-
Total expenditures	34,409,150	32,332,425	44,343,453	(12,011,028)
Excess of Expenditures Over Revenue	(557,150)	(826,425)	(1,120,009)	(293,584)
Other Financing Sources - Transfers in	-	-	16,224	16,224
Change in Fund Balance	(557,150)	(826,425)	(1,103,785)	(277,360)
Fund Balance - January 1, 2006	5,952,012	5,952,012	5,952,012	-
Fund Balance - December 31, 2006	<u>\$ 5,394,862</u>	<u>\$ 5,125,587</u>	<u>\$ 4,848,227</u>	<u>\$ (277,360)</u>



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February 9, 2007

To the Board of County Road Commissioners
Washtenaw County Road Commission
555 N. Zeeb Road
Ann Arbor, MI 48103

Dear Board Members:

We recently completed our audit of the basic financial statements of the Washtenaw County Road Commission for the year ended December 31, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Upcoming Reporting Change - Other Postemployment Benefits

We continue to bring to your attention Governmental Accounting Standards Board Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, the Road Commission should continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a prefunding plan.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the usual fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. As a result, funding the contribution will actually reduce your long-run cost.

For many local units of government, the funding of postemployment benefits is the most significant financial challenge they will face in the coming years. As you are aware, the Road Commission has begun setting aside funds for postemployment benefit obligations. As a result, the Road Commission is ahead of most local units in addressing this obligation. A very high percentage of local units are just beginning to study their situation. We commend the Road Commission on the steps taken and recommend continued proactive efforts to monitor and fund this expenditure. This statement will be effective for the year ending December 31, 2008.

February 9, 2007

Transportation Matters

As you are aware, the State of Michigan experienced lower than anticipated transportation related tax receipts for the State's 2005/2006 fiscal year which ended September 30, 2006. The lower tax receipts and the implication to future periods will likely result in reduced Act 51 payments to the Road Commission. We will continue to inform you of forecasted Act 51 distribution rates, as we receive anticipated collection forecasts from the State. We encourage the Road Commission to continue to be conservative in budgeting this primary funding source.

As part of the governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which provides approximately \$400 million to be used by local governments as federal match monies on local road projects. The Michigan legislature has passed legislation implementing this program.

Other Matters

Segregation of Duties Regarding Cash

During our review of internal controls, we noted opportunities for improvement in the bank reconciliation process. Currently, the person receiving unopened bank statements is also the person responsible for reconciling the bank balance to the general ledger balance. In addition, a supervisory review of the bank reconciliation is not being performed. We recommend that an individual other than the person performing the reconciliation be designated to receive and review the bank statements prior to the reconciliation process. Another alternative would be to designate an individual to perform a supervisory review of the bank reconciliations. Either of these options would enhance the controls related to the bank reconciliation process and help ensure that the cash and investment balances are being reported properly.

Other Matters

Other accounting and procedural matters have been discussed with members of the Road Commission staff.

To the Board of County Road
Commissioners
Washtenaw County Road Commission

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February 9, 2007

We would like to thank the Road Commission personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Mary F. Schafer". The signature is written in a cursive style with a large, flowing "S" at the end.

Mary Schafer

A handwritten signature in black ink that reads "Jenny L. Cederstrom". The signature is written in a cursive style with a large, flowing "C" at the end.

Jenny L. Cederstrom